

Industrial policy in Britain 1945–1951

*Economic planning, nationalisation and
the Labour governments*

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CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge CB2 1RP, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge CB2 1RP, United Kingdom
40 West 20th Street, New York, NY 10011-4211, USA
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

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First published 1998

Printed in the United Kingdom at the University Press, Cambridge

Typeset in Plantin 10/12 [CE]

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing-in-Publication Data

Chick, Martin, 1958– .

Industrial policy in Britain, 1945–51: economic planning, nationalisation, and the
Labour governments / Martin Chick.

p. cm.

Includes index.

ISBN 0 521 48291 7 (hardback)

1. Industrial policy – Great Britain – History – 20th century.

2. Great Britain – Economic policy – 1945– .

3. Great Britain – Politics and government – 1945– . I. Title.

HD3616.G72C47 1997 338.941'009'045–dc21 97–10272 CIP

ISBN 0 521 48291 7 hardback

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1 Economic planning

‘Peace-time planning, in any serious sense, began in the year 1947’.¹
(E. A. G. Robinson, *Economic Planning in the UK*, p. 3)

A lot can happen during a three-week holiday in Cornwall. Returning from a holiday begun on 26 July 1945, the economist James Meade ‘came back to a totally different world: the United Kingdom had a Labour Government with a huge majority; the future of the world had been totally altered by the dropping of two atomic bombs; and the war in the Far East was over. The situation when I got back was quite transformed.’² By the time of his return, the announcement of the general election results had brought to power a Labour government committed to nationalising the coal mines and the leading utilities, determined to effect improvements in health, housing, and welfare, and concerned to pursue low rates of unemployment. In a remarkable legislative programme the basis for both the postwar welfare state and increased government involvement in the economy was to be established. Much of what the later Thatcher governments sought to reorganise and reform had its origins directly in the legislative programme of the 1945–51 Attlee governments.

The immediate task confronting the government was to supervise the transition of the economy from a wartime to a peacetime footing. This had been effected once before, after World War I, and lessons were drawn from that experience. Then, the rapid release of controls was held to have contributed to an inflationary boom in 1919–20 followed by a slump in which unemployment had risen within a few months in the second half of 1920 from 4 to over 20 per cent. Inequity was held to

¹ E. A. G. Robinson, *Economic Planning in the UK: Some Lessons*, Cambridge University Press, 1967, p. 3.

² S. Howson and D. Moggridge (eds.), *The Collected Papers of James Meade: vol. IV, The Cabinet Office Diary, 1944–46*, London, Unwin Hyman, 1990, p. 114, entry for 26 August 1945. The general election was held on 5 July 1945 but the result was not announced until 26 July to allow time for the votes of those serving in the forces to be counted.

have accompanied the inflationary scramble for resources. Work by the historian Tawney and the economist Pigou provided academic confirmation of the perceived detrimental economic and distributive consequences of the early release of World War I controls.³ Concerned to prevent a recurrence of an inflationary boom and slump, and equally concerned to secure ‘fair shares’ in the distribution of scarce resources, the Attlee government had few misgivings about retaining many of the wartime controls.⁴ Whatever the arguments over rationing, there was a wide scepticism about the benefits alleged to proceed from the operation of free, uncontrolled markets.⁵

The retained controls varied in their range and longevity. Many of the most visible were intended to endure throughout the transition period, but then to be abolished as increased production reduced shortages. Many consumer controls fell into this category, consumer rationing controls covering less than one-third of consumer spending in 1948, and never more than one-eighth from 1949. In 1948 over half of consumer spending on food was not subject to rationing.⁶ Many of these controls provided the bulk of Harold Wilson’s ‘bonfires’ of controls from November 1948.

Beyond the controls which were most obviously designed to ease the transition from a wartime to a peacetime economy, there were two further important groups of controls. The first and increasingly important group of controls were those intended to promote exports and to restrain imports. The import controls covered four-fifths of food and raw-material imports and two-thirds of total imports, including manufactures, in 1946. On the export side, direct controls over steel, timber and scarce materials directed resources to leading export industries as well as giving priority to essential basic sector and bottleneck industries such as iron and steel, coal mining, and building materials. These controls were reinforced by building-licence controls, which also sought to ensure that priority was given to the building of

³ R. H. Tawney, ‘The Abolition of Economic Controls’, *Economic History Review*, 13 (1943), pp. 1–30. A. C. Pigou, *Aspects of British Economic History, 1918–1925*, London, Macmillan, 1947, the research for which was undertaken during the war at the request of the wartime government. Papers from Tawney and Pigou were circulating around Whitehall towards the end of the war.

⁴ LPA RDR 267 Post War Finance Sub-Committee, ‘Full Employment and Financial Policy’, April 1944. LPA RD 75 ‘Inflation’, November 1947.

⁵ Ina Zweiniger-Bargielowska, ‘Bread Rationing in Britain, July 1946–July 1948’, *Twentieth Century British History*, 4, 1 (1993), pp. 57–85. UGA, McCance Papers, Nuffield 24th Private Conference on ‘The Government’s Controls of Industry and Trade’, 26 and 27 June 1948. Contribution by Sir John Woods.

⁶ Alec Cairncross, *Years of Recovery: British Economic Policy, 1945–51*, London, Methuen, 1985; university paperback 1987, p. 334.

council houses and to investment in the traditionally depressed Development Areas. With the growing importance and awareness of the balance-of-payments problems, key controls retained their importance longer than originally expected, some gaining an added lease of life during the Korean War rearmament programme. Direct controls on most steel, which had been scrapped in May 1950, were reinstated in February 1952 before finally expiring in May 1953.⁷

The other set of controls were those intended to contribute to the planning of an economy in which approaching unemployment was counteracted by government manipulation of fixed capital-investment activity.⁸ Such thinking, with its deep Liberal Party roots, emanated in the 1930s from groups such as the XYZ group and the New Fabian Research Bureau, many of whose discussions became familiar to a future generation of government ministers and advisers, including Hugh Gaitskell, Douglas Jay, James Meade, Hugh Dalton, and Evan Durbin.⁹ Dalton, the Attlee government's first Chancellor of the Exchequer, was keen to give physical embodiment to attractive ideas, and in January and February 1946 he began to organise the establishment of the National Investment Council (NIC). Drawing on established counter-cyclical trade theory, the NIC was to prepare a 'shelf' of projects which could be held in readiness for implementation when downturns in the trade cycle began to manifest themselves.¹⁰ Dalton was chairman of the NIC, whose membership included a mix of friends and XYZ members.¹¹ Established with typically ebullient apparent self-confi-

⁷ Cairncross, *Years of Recovery*, p. 338–9. The controls of sheet steel and tinplate were not lifted in May 1950.

⁸ PRO CAB 134/982, 'Investment in 1953 and 1954', Report by the Investment Programmes Committee, 3 January 1953, p. 5, para. 2. 'It was contemplated in the 1944 White Paper on Employment Policy that the Government's power to influence the level of investment should be used to maintain the level of employment.'

⁹ S. Howson, *British Monetary Policy 1945–51*, Oxford, Clarendon Press, 1993, p. 63.

¹⁰ J. C. R. Dow, *The Management of the British Economy, 1945–60*, Cambridge University Press, 1970, p. 214. PRO 134/982, 'Investment in 1953 and 1954', Report by the Investment Programmes Committee, 3 January 1953, para. 2. PRO T288/81, Letter from Hugh Dalton to Sir Clive Ballieu, 17 January 1946. BKEA G1/247, Letter from Dalton to Lord Catto, 15 January 1946.

¹¹ The members 'chosen for their wide knowledge and experience of financial, economic and industrial questions' included Lord Catto (Governor of the Bank of England); William Piercy, the first chairman of the newly established Industrial and Commercial Finance Corporation, which was to assist in improving the supply of capital to small and medium-sized companies; Sir Robert Pearson (Chairman of the Stock Exchange); Lord Kennet (Chairman of the Capital Issues Committee); Sir Albert Gladstone (Chairman of the Public Works Loan Board); Lord Hyndley (Chairman of Finance Corporation for Industry, before leaving to become chairman of the National Coal Board); C. E. Prater (Co-operative movement); Sir Clarence Sadd (Midland Bank); Sir Clive Ballieu (President of the Federation of British Industries); Nicholas Davenport, and George Gibson. PRO T288/81, letters from Hugh Dalton to Sir Clarence Sadd,

dence, the achievements of the NIC must have proved a disappointment to Dalton. Its fundamental *raison d'être* was undermined by the failure of the expected slump to materialise and in its short life, prior to being wound up by Stafford Cripps in December 1948, it tended to discuss rather marginal issues such as relaxing the wartime ban on companies issuing bonus shares.¹²

The fate which befell Dalton's ambitions for the NIC also attended his complementary approach to planning in which capital issues controls assumed a central position. The NIC and the 'control of demands on the capital market' through the Capital Issues Committee formed the basis of Dalton's 'planning of investment' and his anti-slump measures.¹³ Whatever the long-term potential of such instruments, Dalton's claim in 1946 that these financial controls provided the basis for 'effective planning' in an economy in which companies often had high levels of accumulated savings seems overly sanguine. To Meade, Dalton's claim was 'absurd' and 'pure eye-wash', being 'no more a proper control of investment than anything we had before the war'.¹⁴

The real constraint on investment activity was the shortage of building materials, steel, timber, and labour.¹⁵ Indeed, it was the predominance of physical-resource shortages, and the secondary importance of finance, which in part allowed Dalton to operate the cheap money policy with which he is so closely identified.¹⁶ Cheap money had many attractions for government. It reduced the cost of servicing the national debt of around £25,000 million, with a floating debt component of £7,000 million; it was consistent with the aim expressed in the coalition government's 1944 White Paper on employment policy of avoiding 'dear money in the Reconstruction'; it was held to be in keeping with the longer-term anti-slump measures; and it reduced the cost of raising money for the reconstruction and nationalisation programme.¹⁷ The stock issue in compensation for the railways was

Lord Hyndley, and Lord Piercy, 17 January 1946. M. Chick, 'William Piercy', in D. Jeremy (ed.), *Dictionary of Business Biography*, vol. IV, London, Butterworth, 1985. BKEA G1/247, 'National Investment Council, Members', 5 February 1946.

¹² Howson, *British Monetary Policy*, p. 121.

¹³ PRO T288/81, National Investment Council, Paper 5, 'Note on the Work of the Investment Working Party', November 1946, para. 5. BKEA G1/247, letter from Dalton to Lord Catto, 15 January 1946.

¹⁴ Meade, *Diary*, 2 December 1945.

¹⁵ PRO CAB 134/440, IPC(49)3, Cabinet, Investment Programmes Committee, *Report on Capital Investment in 1950–1952*, para. 61.

¹⁶ For a detailed analysis of Dalton's cheap money policy, see S. Howson, *British Monetary Policy*.

¹⁷ PRO T233/299, Paper on 'Cheap Money' by H. A. Copeman, 17 March 1947, paras. 1, 3, and 4. For a critique of Keynes' *General Theory* and the cheap money policy see

expected to amount to over £1,000 million, that for electricity to around £350 million, while the housing programme was thought likely to require that the government borrow £500 million.¹⁸ Dalton was understandably keen to pursue cheap money. Loans raised at higher rates of interest would form correspondingly high capital charges on the assets represented by the loans, and in turn would require the rents of new houses and the prices charged by the National Coal Board (NCB) and other public corporations to be increased. Since increased prices were held to contribute to inflationary tendencies, cheap money could be presented as being anti-inflationary.¹⁹ This contrasted with the view articulated in some sections of the Conservative Party that interest rates should be raised precisely so as to dampen inflationary tendencies. What was not clear was how high interest rates would have to go to have any such effect. If the intention was to take immediate measures to dampen demand and to promote savings, then a more direct option was to run a budget surplus. Compared with the potential impact of a budget surplus, dearer money was dismissed by planners, such as Alec Cairncross, at the Board of Trade, as 'largely a red herring'.²⁰

Before a move could be made to attempt to balance income and expenditure by such means as a budgetary surplus, a number of major adjustments had to be made to the structure and assumptions of immediate postwar economic planning. It had to be recognised that excess rather than deficient demand was the principal persistent problem, and that budgetary techniques offered at least as much scope for managing excess demand as the phalanx of price controls and allocating committees. Such a shift in perspective would require central, physical planners such as the Lord President, Herbert Morrison, to step to one side and allow the Treasury a greater role in 'economic planning'. Such significant changes were never likely to be conceded easily, and it was only on the back of the two crises of 1947

BKEA ADM 14/16, 'Cheap Money: A Criticism of Lord Keynes' Theory and an Alternative View' by Lucius P. Thompson-McCausland, March 1945. His criticism that Keynes' *General Theory* was too concerned with the outlook of the speculative investor rather than that of businessmen was supported by Dennis Robertson. BKEA ADM 14/16, Letter to L. P. Thompson-McCausland from Henry Clay, Warden, Nuffield College, Oxford, 11 April 1945. BKEA ADM 14/16, Letter to L. P. Thompson-McCausland from James Meade, 23 April 1945. Letter to Thompson-McCausland from D. H. Robertson, 19 March 1945.

¹⁸ For possible alternative bases for compensation see Frederick Geidt, 'Taking over Railways: an Annuity Plan', letter, *Financial Times*, 29 November 1946.

¹⁹ PRO T233/299, paper on 'Cheap Money' by H. A. Copeman, 17 March 1947, para. 4.

²⁰ PRO T230/25, letter to R. Tress (Economic Section) from Alec Cairncross (Board of Trade), 19 June 1947.

that substantial changes to the machinery, personnel and outlook of postwar economic planning were effected.

The two major crises of 1947 were the fuel crisis in February and the convertibility crisis in August. While a counterfactual £200 million exports were lost, the political importance of the fuel crisis was probably much greater than its economic significance, since it raised clear suggestions of incompetence at the centre of government and cruelly broke any confidence in the omniscience and effectiveness of planning. As Dalton remarked, after the fuel crisis it was 'never glad, confident morning again'.²¹ Indeed, it is difficult to refute accusations of incompetence and weak management at the centre of government. There was clearly a fundamental excess demand for coal, and, if it were allowed to continue, a crisis of some sort was entirely predictable. Eight months before the fuel crisis, James Meade, the Director of the Economic Section, wrote to Morrison warning him that not only was it 'difficult to exaggerate the urgency of radical action to increase coal production', but that it was not at all 'impossible that shortage of coal this winter may so interfere with supplies of fuel for industry as to cause widespread unemployment and a failure to maintain our economic targets, including our export drive, and may make it difficult to keep our homes warm. Such a development, coming on top of the present food situation, would clearly be disastrous'.²² Counter-arguments made by Emanuel Shinwell, the Minister of Fuel and Power, that 'the worst is over' were regarded by Douglas Jay as 'too optimistic', and that

in fact, as things are going at present, industry, transport and domestic consumption is bound to be dislocated on a wide and uncontrollable scale by December or a little later. This easily predictable and avoidable disaster is likely to occur at exactly the moment when the National Coal Board takes over the first great nationalised industry in this country. The discredit to the Government would be as devastating as the dislocation to industry.²³

That the predicted fuel crisis did occur highlighted the ability of planners to extrapolate from existing consumption and production trends and to forewarn politicians of approaching problems. That, despite such warnings, the fuel crisis occurred also pointed to the insufficiency of information alone; in a planning structure there also had to be at least a commensurate willingness on the part of political leaders

²¹ H. Dalton, *High Tide and After*, London, Frederick Muller, 1962, p. 205.

²² PRO CAB 124/706, CP(46)232, note from J. Meade to Lord President, 'Output, Recruitment and Conditions of Employment in the Coal-mining Industry, memorandum by the Minister of Fuel and Power', 19 June 1946, para. 1.

²³ PRO CAB 124/706, note entitled 'Coal Crisis' from D. Jay to J. A. R. Pimlott, 19 June 1946, paras. 1–3.

to act on the information. The tale of Attlee confronting Shinwell with the statistics only to be told in reply that he should not 'be led up the garden path by the statistics', and that rather he 'should look at the imponderables' did not bode well.²⁴

The political response to the fuel crisis was to replace Shinwell with Gaitskell as Minister of Fuel and Power, with Gaitskell also being appointed chairman of the newly established Fuel Allocations Committee. To strengthen the credibility of the wider planning structure, the establishment of the Central Economic Planning Staff (CEPS) and the Economic Planning Board was announced during a three day debate on the economy between 10 and 12 March 1947. These were rushed creations, the Economic Planning Board being a rather cosmetic, tripartite talking shop whose members were not appointed until July. Of much more importance was the CEPS headed by Sir Edwin Plowden, which, again, did not take up its duties until the summer of 1947 but which did mark a sharp move towards strengthening the centralised administrative balancing of supply and demand within the planning structure.²⁵ The establishment of the CEPS was both a reflection of the growing concern about the persistence of excess demand and an implicit acknowledgement that the existing planning structure was experiencing considerable difficulties with operating in such conditions. For all of Morrison's boasts of planning, and his self-regard as the 'central economic co-ordinator', his department had little supervisory central control over the issue of steel approval forms and building licences by other departments such as the Ministry of Works.²⁶

There were also pockets of the economy where 'co-ordination' was conspicuously absent. In a reconstructing economy, resources became too thinly spread over a growing number of construction projects, few of which were completed. By 1947, in the Development Areas, which accounted for half of all the factory building authorised since 1944, only 40 per cent had been started and a mere 6 per cent completed. In the North West region alone, only 38 per cent of all licensed industrial building jobs costing over £10,000 were more than one-quarter complete.²⁷ For all of the government's insistence on learning from the experience of the economic reconversion after World War I, this over-

²⁴ D. Jay, *Change and Fortune*, London, Hutchinson, 1980, p. 149.

²⁵ D. N. Chester, 'Machinery of Government and Planning' in G. D. N. Worswick and P. H. Ady (eds.), *The British Economy 1945-50* Oxford, Clarendon Press, 1952, pp. 344-5.

²⁶ Herbert Morrison, *Economic Planning*, London, Institute of Public Administration, 1946. Paper read before a meeting of the Institute of Public Administration, 17 October 1946, p. 8. BLPES, Meade papers, 1/4. Diary, 26 August 1945.

²⁷ PRO CAB 134/437, IPC(47)9, Cabinet, Investment Programmes Committee, *Report*, 8 October 1947, p. 5, para. 12.

starting of building work replicated that previous experience. In housing, completion rates were low as the excessive start authorisations exacerbated the problem of resource allocation. By 1947, there was a growing stock of unfinished houses and houses under contract, numbering 360,000.²⁸ By 1947, the wider effects of excess demand were manifesting themselves in crucial sections of the planning system, with the steel-allocation system steadily breaking down as paper authorisations ran ahead of steel supplies, which had become ‘chaotically distributed’.²⁹

These specific failures in allocation and co-ordination were products of the fundamental problem of excess demand. Various economists, such as Michal Kalecki, Christopher Dow and David Worswick, made estimates of the size of this excess demand, and all seemed broadly agreed that it was likely to persist for five to six years after the end of World War II. While the general problem of excess demand had been well understood for a long time and had, of course, underpinned the decision to retain many of the wartime controls, the events of 1947 increased the political willingness to address the immediate problems of excess demand rather than worry about the longer-term potential problem of demand deficiencies.³⁰ By September 1947, Nicholas Davenport, the founder of the XYZ group and a keen member of the

²⁸ PRO CAB 134/437, IPC(47)9, Cabinet, Investment Programmes Committee, *Report*, 8 October 1947, p. 5, para. 11.

²⁹ PRO CAB 134/437, IPC(47)9, Cabinet, Investment Programmes Committee, *Report*, 8 October 1947, Appendix 2, para. 1. N Rosenberg, *Economic Planning in the British Building Industry, 1945–9*, Philadelphia, University of Pennsylvania Press, 1960, p. 39.

³⁰ PRO T230/26, EC(S)(47)27, Economic Section, ‘Hyper-demand’, paper by J. C. R. Dow, 17 July 1947, paras. 5 and 6. PRO CAB 134/503, MEP (46)5, Cabinet, Ministerial Committee on Economic Planning, ‘Economic Survey for 1946/47; Report by the Economic Survey Working Party’, 11 July 1946, para. 29.

During the war, savings of £5,000 million had accumulated, while capital maintenance of £2,000 million and net investment of £4,000 million were foregone in war. A total of £1,200 million was sitting in unspent maintenance allowances, to which could be added War Damage compensation payments, Excess Profits Tax refunds, and funds released by wartime depletion of working stocks which had not yet been re-absorbed. Clearly, although about £4,000 million of the consumption foregone would never be recovered – ‘the eggs of yesteryear will never be eaten’ – it was clear that there was a large accumulated spending power. Much of this was held in relatively liquid form, whether as cash, bank deposits, or, as was most common, in the form of government-sponsored ‘small savings’ (i.e. Post Office and Trustee Savings Banks deposits, National Savings Certificates, and Defence Bonds) which between 1939 and 1945 increased by more than £3,800 million. While price rises had depreciated some of the real value of these holdings, the cheap money policy reduced the opportunity cost of consumption. LPA RD1, ‘A Labour Policy for Privately Owned Industry’, by G. D. N. Worswick, September 1945. Refers to M. Kalecki, ‘Employment in the United Kingdom During and After the Transition Period’, *Bulletin of the Institute of Statistics*, December 1944. David Worswick reckoned the ‘piled-up demand’ for consumption at about £1,700 million, in terms of 1938 retail prices.

NIC, was urging that 'counter-inflation action today must be more direct than the monetary measures of the past', and that the government should reduce excess purchasing power through such means as running a budgetary surplus, cutting defence expenditure severely, and, possibly, reducing food subsidies.³¹ Added urgency was provided by the convertibility crisis and the renewed emphasis on increasing exports. The wartime sale of over £1,000 million of investments and the accumulation of sterling and dollar liabilities of £3,500 million, produced a net change on the capital account across the war of £4,700 million, giving Britain the largest external debt in its history.³² It had been recognised long before the end of the war that with exports at 30 per cent of their pre-war level, a major postwar export drive would have to be launched with the aim of achieving a very substantial excess of between 50 per cent and 75 per cent over the pre-war volume of exports.³³

In general quantitative terms, the export drive could be considered a success. In 1946, exports increased by 70 per cent in volume over 1945 and to a higher level than before the war.³⁴ At £960 million in 1946, exports had climbed to £2,735 million by 1951.³⁵ Yet, despite this performance, the government was dogged by biennial balance-of-payments problems, which were not fully understood by most ministers and officials. The end of the war had brought to an abrupt end the Lend-Lease arrangement with the United States. The convertibility problem – which arose out of US insistence during the negotiations on the postwar loan that sterling become convertible – was dramatic, but only in the sense that it was a very visible manifestation of a complex problem. A dollar drain preceded convertibility, and convertibility itself did not add substantially to the current dollar deficit in the first half of 1947. It was not the suspension of convertibility but rather the cuts which followed in its wake which ended the dollar drain.³⁶

What was difficult for politicians to understand was why balance-of-payments difficulties should coexist with a favourable balance of trade position. It had been expected that the trade and gold-dollar position would move roughly in line with each other, and that the postwar balance-of-payments problems would not endure for long. Discussing

³¹ BKEA G1/247, National Investment Council, NIC Paper 16, Memorandum by Nicholas Davenport on Counter-Inflation Measures, 22 September 1947.

³² Alec Cairncross, *Years of Recovery*, p. 7.

³³ Cairncross, *Years of Recovery*, pp. 6–7.

³⁴ R. Clarke, *Anglo-American Collaboration in War and Peace 1942–49*, Oxford, Oxford University Press, 1982, pp. 40–1. Cairncross, *Years of Recovery*, pp. 26–7.

³⁵ Central Statistical Office, *Economic Trends, Annual Supplement*, London, HMSO, 1996, Table 1.17.

³⁶ Cairncross, *Years of Recovery*, pp. 163–4.

the severity of the balance-of-payments position in 1944, both Richard Clarke and James Meade expected the problem to be resolved within five years. In the event, this did not happen. In June 1948, Meade acknowledged that 'there is one thing, of course, that is much worse now than one had reason to expect it might be three years after the end of the war: I mean our balance of payments position'.³⁷ The development of the almost separate problem in the gold and dollar reserves presented planners with balance-of-payments difficulties of an unanticipated character and durability. What was clear, however, was that the balance-of-payments problems heightened the need to increase exports, to constrain or substitute imports, and that increased exports would add even more to the problem of excess demand within the domestic economy. If excess demand was not reduced then the increased competition for resources was likely to result in even more unfinished projects and implosions within the machinery of economic planning. Necessity, aided by illness, crisis, and blunder, impelled changes to the structure of economic planning.

The illness was the thrombosis of Morrison, which removed him from the centre stage of economic planning between January and May 1947, and allowed Stafford Cripps and Dalton to step into his place. The crisis was the convertibility crisis, following which Cripps was appointed Minister of Economic Affairs, and Morrison's role as economic co-ordinator effectively ended. The blunder was Dalton's budget leak in November 1947, which occasioned his resignation and allowed Cripps to succeed him and amalgamate the posts of Chancellor and Minister of Economic Affairs. Two years after the end of the war the Treasury was back at the centre of economic policy-making, and domestic and external policy came much closer together. This marked a turning-point in the arguments over the practice of planning and the role of the Treasury in the planning structure. Coincidentally, drawing on his work with Richard Stone on the development of national-income accounting, Meade pushed for the gap between supply and demand to be presented on an income-expenditure basis. This approach was opposed by Morrison, who, like many politicians, preferred 'gaps' to be measured in physical, usually manpower, terms.

In the wake of the convertibility crisis, significant changes were made to the planning structure. The establishment of the Investment Programmes Committee (IPC) was a move towards the tighter screening of departmental investment programmes.³⁸ To an extent, the

³⁷ UGA McCance Papers, Nuffield 24th private conference on 'The Government's Controls of Industry and Trade', 26 June 1948. Contribution by James Meade.

³⁸ PRO CAB 129/20, CP(47)231, Cabinet, 'Investment Programmes Committee, Note

IPC picked up on some of the earlier work of the Investment Working Party (IWP), which, prompted by Peter Vinter at the Treasury, Douglas Jay and the Economic Section, had already begun to move towards examining the investment programmes of departments, both in response to the Economic Survey considered by the Cabinet in February 1946 and as part of its efforts to prepare a shelf of anti-slump projects.³⁹ However, the IWP, reflecting the structure of the early planning administration, had concentrated on the 'physical' aspects of investment, such as the availability of labour, materials and capacity, and had tended to ignore its financial aspects, paying almost no attention to interest rates, variable grants-in-aid, taxes and subsidies.⁴⁰ The IPC now attempted to integrate both the financial and the physical aspects of investment, in keeping with the greater emphasis given to financial and budgetary means of acting on demand.

The determination to reduce excess demand was evident in Dalton's budget of November 1947. While the budget had swung from a deficit of £2,207 million in 1945–6 into a surplus in 1947, largely due to demobilisation and a reduction in public expenditure, the importance of the November 1947 budget was that it marked a deliberate attempt to reduce excess demand using budgetary techniques. The budget hit a peak surplus of £831 million in 1948–9.⁴¹ A high level of taxation was maintained and cuts sought in public expenditure, which, as in World War I, had risen during World War II. From 9.9 per cent of total domestic expenditure in 1935, public authorities' current expenditure on goods and services had peaked at 46 per cent in 1944, before falling to 14.7 per cent in 1948, but rising again to 18.2 per cent in 1952.⁴² War appeared to have had a once-and-for-all ratchet effect on public expenditure, which, once increased, never returned to its pre-war level.

Among the components of public expenditure, what caught the eye of contemporaries was the subsidy bill. As a share of central government expenditure, total subsidies climbed from 2.7 per cent in 1939 to 4.2

by Secretary of the Cabinet'. PRO CAB 128/10, CM(47)68th Conclusions (2) and (3). Meade, *Diary*, entry for 27 January 1946, p. 204.

³⁹ PRO T288/81, National Investment Council, Paper 5, 'Note on the Work of the Investment Working Party', November 1946 para. 5. PRO CAB 134/188, IWP(46)4 (Revise), 'First Report by the Investment Working Party', 12 March 1946. para. 7. Meade, *Diary*, 10 February 1946, pp. 212–13.

⁴⁰ PRO T288/81, National Investment Council, Paper 5, 'Note on the Work of the Investment Working Party', November 1946, para. 1.

⁴¹ Cairncross, *Years of Recovery*, pp. 420–1

⁴² C. H. Feinstein, *Statistical Tables of National Income, Expenditure and Output of the UK, 1855–1965*, Cambridge, Cambridge University Press, 1972, Table 2. R. Middleton, *Government versus the Market: The Growth of the Public Sector, Economic Management and British Economic Performance, 1890–1979*, Cheltenham, Edward Elgar, 1996, pp. 497–509.

per cent in 1944, but then continued to climb after the war, peaking at 16.9 per cent in 1948, before beginning to fall slowly to 11.4 per cent in 1951.⁴³ Introduced in 1941 to help control wartime inflation, by June 1945, food subsidies alone were costing £250 million per annum and rising.⁴⁴ Keynes and the Economic Section, regarded the food subsidies in particular as ‘very inflationary’ inasmuch as they reduced or enlarged the budget surplus or deficit, and of questionable importance in combating wage inflation.⁴⁵ In September 1947, Nicholas Davenport was wondering whether ‘some part of the food subsidies might be passed on without exciting wage claims’ and whether

perhaps more could be done about the wheat subsidy by adopting the simple expedient of selling a white loaf at its true economic price. Seeing that a large proportion of the working population appears to suffer from gastric trouble there should be no class reaction to this simple plan. All gastric sufferers in every walk of life would willingly pay more for a white loaf and their peace of digestion.⁴⁶

If one of the aims of food subsidies was to assist low-income households, Meade argued that could be done more efficiently, not by subsidising prices of items consumed by all households but by increasing the incomes of households with children through increasing family allowances.⁴⁷

Although the size and targeting of food subsidies were attacked, it was not clear whether there was much scope for reducing consumers’ expenditure in general. Consumer expenditure as a share of total domestic expenditure was on a trend decline, as public authorities’ current expenditure on goods and services, gross domestic fixed capital formation and, above all, exports increased their share.⁴⁸ While consumer expenditure per capita recovered its 1939 level in 1946, its 1938 level was not reached until 1949.⁴⁹ Over the years 1946–51, consumption per head rose by only 1 per cent per annum.⁵⁰ Rationing continued into the postwar period, being introduced for the first time on bread in 1946 and potatoes in 1947. This was not what a victorious, fully employed working population, which uniquely among workers in the European belligerent countries had enjoyed a wartime increase in

⁴³ C. H. Feinstein, *Statistical Tables*, Table 12.

⁴⁴ Cairncross, *Years of Recovery*, p. 39.

⁴⁵ Meade, *Diary*, pp. 271–2, 281, 7 June 1946.

⁴⁶ BKEA G1/247, National Investment Council, NIC Paper No. 16, Memorandum, by Nicholas Davenport on Counter-Inflation Measures, 22 September 1947.

⁴⁷ Meade, *Diary*, pp. 249, 259, 6 and 27 April 1946.

⁴⁸ C. H. Feinstein, *Statistical Tables*, Table 2.

⁴⁹ C. H. Feinstein, *Statistical Tables*, Table 17, Column 3.

⁵⁰ Cairncross, *Years of Recovery*, p. 23.